

BBC Charter Review

Licence Fee Seminar

Session 4: BBC's Own Future Funding Proposals

Lord Burns: Thank you all for being so prompt. We've now reached our fourth and final session for the day which is to address more particularly the BBC's own future funding proposals. It obviously has generated a great deal of interest and we've had a day building up to this. Could I begin by asking those who haven't yet turned their blackberries and other devices off to please do so. Secondly, the panel to briefly introduce themselves. Patrick.

Patrick Barwise: I'm Patrick Barwise from London Business School. I'm also an independent consultant and I'm on the council of *Which?*

Steve Hewlett: Steve Hewlett, I'm a non executive director of Tiger Aspect Productions. I write a column in *The Guardian* and do various bits of consultancy.

Caroline Thomson: I'm Caroline Thomson, I'm the Director of Strategy for BBC and in charge of Charter Renewal.

Charles Allen: Charles Allen, Chief Executive of ITV.

Jocelyn Hay: I'm Jocelyn Hay and Chairman of Voice of the Listener and Viewer.

Graham McWilliam: I'm Graham McWilliam, Deputy Head of Strategy at BSkyB.

Patricia Hodgson: Patricia Hodgson, I was at the BBC, then Chief Executive of the Independent Television Commission, and just about to go to Cambridge as Principal of Newnham.

Ed Richards: Ed Richards, C.O. of Ofcom.

Lisa Kerr: Lisa Kerr, External Affairs Manager at the Committee Radio Company's Association.

Lord Burns: Well, thank you very much. We have quite a lot of people obviously on the panel for this final session because this as I say, is where the rubber hits the road. We've had the bid from the BBC. What we've tried to do during the course of the day has been to go into some building blocks for this, first of all by reviewing the current licence fee settlement, looking at what was happening to the pattern of income across different parts of the media, some discussion of efficiency gains. In the second session, we looked at all of this in rather more detail with our eye on the future, and basically we were examining the 1.6 billion bid that was in there for extra and better content on existing channels and the widening of the offer. We talked a bit about super-inflation, we talked again about the extent of possible efficiency gains, and we also had a brief discussion about the possible shape of the market going forward, although no-one was willing to chance their arm very much there. And in the third session we were looking at the technology side which in a way was looking more closely at the 1.2 billion I think bid, that is an aspect of the bid, and I thought that produced some useful discussion. It also I think probably raised more issues than it resolved like many of the other sessions in terms of just what it was that was in the bid and what some of the options were for the future. But I think for this session I really would like to know, take the opinion of those who are around the table and also given

time, others as well, to just get the people's individual views about what they feel about the BBC bid, about the various components, which parts people feel are more solid than others, and what they would themselves see as being a reasonable settlement. I am going to begin, if he willing, with Mark just to rehearse for us again in a sense the outline of the bid and what it is that we should be doing.

Mark Thompson: This would be a reasonable settlement. Well, much of today we've touched on, in a sense, a central question which has been debated for the last two years, which is what should the BBC do, what's the BBC's role for the United Kingdom over the next 5, 10 years. Do we want a BBC which remains a traditional television and radio broadcaster? Do we want a BBC which is restricted to existing services and should not take part in this second wave of digital? Or do we want a BBC which is not just part of this new wave of digital but a leader in this new wave, and an innovator and an experimenter? I think it's a good debate to have. I have to say, if you read the White Paper and look at what the government's policy is, and also if you look at some of the consultations with the public, and there's been an extensive amount of consultation with the public, not just the BBC but many other agencies asking the public what they want, it is clear that what this country wants, and it's set out in the Green Paper, is a BBC which is part of the future and which like every other media organisation in the world is trying to grasp that future. I'll just quote one section from the White Paper. This is paragraph 3.1.15: *'Since its establishment, the BBC's taken a leading role in opening up the benefits of new technologies to mass audiences. As we said in the Green Paper, it is seen as a trusted guide to new technology and the new experiences that come with it. Over its long history, the BBC has helped introduce audiences to black-and-white and then colour TV, to FM and then digital radio, to digital and interactive TV, to the internet, to pod-casting and to 7-day catch-up. We want the BBC to have the scope to develop this role under the new Charter and Agreement, and with licence fee funding.'* It doesn't say that there but that's quite clear from the White Paper that that's what the government wants. And so what the government's set out as its policy is a mission for the BBC and what our proposal on licence fee funding does is try to capture that mission. It lays out the areas where we believe we need to spend to deliver that vision, both about improving the quality of content across services new and old, and also in terms of developing some of these new technologies. I mean, in the last session, Barry Cox in particular I thought wanted to go back and have the previous argument again, but it's very clear, to be honest, where we are, which is the government has a view about this. We do not believe that everything that the BBC does should be done and offered free to licence payers. We believe absolutely we should work with rights holders and others to make sure frequently that there are sensible commercial windows as well for the exploitation of our content, as there always have been, but the core idea of a publicly funded BBC going forward, offering a range of high quality services and continuing to innovate is what is wanted. Should the BBC try and achieve this by making efficiencies, by reprioritising its existing output? Yes, it should, and on the basic list of aspirations the BBC's laid out, we believe that 70% of it should come, so to take one example, if quality content means that BBC1 should have some more original drama and most specialist factual programmes, science, natural history and so forth in peak time, much of that should be paid for by efficiencies, and by the way, much of that efficiencies on BBC1, so you've got to be quite careful about taking these big numbers and assuming they add up to gigantic new injections of cash. If you take quality content, the amount we've asked for is the equivalent of £700,000 a day. Most of that, if you, you know, assume self-help works across the bid, most of that £700,000 comes from the BBC's existing resources, it comes out of better use of the money used currently on BBC1. If you took a completely even slice of the £700,000 a day, you know, getting on for £500,000 would come out of the BBC's own efficiencies, reduction in overheads, improved commercial revenues and so forth, but my view is that one of the simple things to do

with the licence fee bid is to match up the licence fee bid against the public purposes and against the mission set out in the White Paper, and I think when you do that, it stacks up.

Lord Burns: OK. Charles, you're next.

Charles Allen: Yes, thank you very much. A strange thing for the Chief Executive of ITV to be saying is actually we want an appropriately funded and strong BBC. From a television perspective, if viewers aren't watching ITV, I desperately, desperately want them to watch the BBC rather than my commercial competitors, so we're in a very strange position where we actually, many of the things that Mark has said I absolutely agree with. I think the important thing is to understand that television is an ecology and particularly the PSB element of television is an ecology, and ITV plays and Channel 4 and Channel 5 play a very strong part in that ecology, spending, you know, a billion pounds on free programming, you know, 300 million on drama, half our contents coming from outside London. We constantly meet the 25% indie quota, we're known for innovation. We provide 5,000 hours of regional services. The key thing is this current level of overfunding. I would agree with many of the words that Mark's used. I just can't agree with the numbers. The numbers just don't add up, and you know, Mark kindly quoted some things from the White Paper. I mean, I'll just quote a few things from PKF. PKF basically talk about *'the reasons for such large cost increases are not explained in the BBC's submission. There's scope for many conservative cost growth assumptions and they still could achieve the improvement in quality.'* It does not represent value for money for the licence payer, and I quote in terms of, you know, the track record on cost savings, *'The level of cash released in savings in the past five years relates to less than 1.3%,'* so I think when you start looking at the words and the numbers, I just don't think they stack up. The £1.6 billion we've heard about for quality television, what is it for, what's it actually going to be spent on? £1.4 billion for super-inflation. If you actually look at the quantum of money that's spent by ourselves and the BBC, if the BBC have that money, we will create super-inflation and it'll mean a lot of our talent, not necessarily independents or producers will end up getting it, it will just disappear. I struggle to understand the whole issue of £1.2, a bid digital services. I came in on the end of that last conversation and I still didn't hear the answer. You know, have we actually accounted for services that have not been approved, and maybe a better way to address that is when they've been approved, we can actually then ask the public to pay for them, so there's a lot of issues around the numbers. It's just the sheer quantum. They're asking for three times the level of forecast growth in all advertising over the next seven years, and that frankly, when you look at the numbers, there's a piece of paper not much thicker than this that supports the numbers, or doesn't support them. When we were trying to convince our regulator in terms of our licence fee going forward, then we had a submission that was the height of this table. I just don't think there's any transparency and that's what I'm looking for. I'm looking for an appropriately-funded BBC able to cope in the digital age, but we need to have a BBC that's absolutely transparent that we can actually review, and when you look at detail at the PKF Report, it demonstrates we haven't done that.

Mark Thompson: I mean, early on, Charles, we reminded ourselves that over this last charter period, the licence fee's grown at a much slower rate than TV advertising, even less than radio advertising and even less than subscription television, it's been the lowest growing element. The proportion of income to the BBC as a proportion of total radio and television has fallen over this period. We believe on all sane estimates of advertising growth and subscription growth, the BBC's share of total revenue which is 23%, was 46% in '95, 23% today, will decline further than 20%. So under this proposed settlement, the BBC's share of income in the TV and radio market, and in the broader audio-visual market, media market as well, will fall further. So this is not a BBC getting bigger in relation to the industry, it's getting smaller.

Charles Allen: That's factually incorrect, that is just not true. In terms of looking back, basically the BBC ended up getting £300 million more than it was predicted when the licence fee was done last time. That's the facts. That's a fact.

Mark Thompson: Well, it's not, honestly Charles, it's firstly based on ITV confusing nominal and real, and the 1997 was in real terms, in addition to the RPI plus 1.5%, the BBC was set a target for capturing extra household growth set at 0.7%. In addition, the BBC was set a target in terms of reducing evasion of the licence fee. We were asked to go out and actually secure more, now, we've been successful in reducing evasion, it's now at a historic low. We were successful in meeting the target for household growth, and we got a licence fee which grew at 1½ per cent. It's exactly in line with what was expected in the 99/2000 settlement. To be honest, your submission, just doesn't quite understand how that settlement plays out.

Charles Allen: No, I disagree with that I think. All I'm doing is referring back to something that PKF, I'll come back and specifically pick up on that. But actually I think what you've just said is a classic example of the lack of transparency because PKF when they're reviewing the BBC numbers, and I quote, *'The adoption of different interpretation of figures, changing numbers and ongoing reviews at the BBC has rendered the red book we analysed already out of date.'* They can't reconcile the numbers, it's as simple as that. I want a strong BBC appropriately funded, but we need to have a much more transparent process on what the numbers are and what the money's going to be spent on.

Mark Thompson: Look, do we think, do I think that going forward there needs to be greater clarity around definitions, on issues like efficiency? Yes, I do. Do I think that the BBC should be made accountable? Yes, I do. What's proposed under the new settlement is that each year, I mentioned this earlier, the National Audit Office will come in and actually audit the BBC's success in delivery against its productivity and efficiency targets. Each year that national audit figures will be published in the annual report. I agree with that, but to be honest, you know, the 2000 Chris Smith settlement is not some secret document. It's extremely clear and I have to say, it was clear what was fundamentally intended then and the BBC's performance, again look at our annual report, is very clear. At the highest level it is extremely clear, all of these numbers are very clear.

Charles Allen: They may be very clear to the BBC but they're not very clear to the general public and they're certainly not clear to PKF who did the detailed analysis.

Lord Burns: One of your other proposals in your submission was that you were looking for a 5-year settlement rather than a 7-year settlement, simply in terms of seeing how the world evolved.

Charles Allen: Well, I think if we'd sat here, you know, when we were doing the last settlement, none of us knew how the industry was going to move, and I think the BBC does require flexibility, but I think frankly it would be sensible at the point of switchover to review it at that point in time, and that was the thinking behind the 5-year review.

Mark Thompson: That's exactly what's proposed. I mean, the proposal is that, you know, this proposal, this settlement will begin next year and you know, immediately thereafter the switchover in 2013 we'll be reviewed and 2013/14 will be the last year of this settlement, you know, once switchover had happened and everyone could see what happened, so we're actually ...

Charles Allen: But you'll have had the money.

Mark Thompson: No, Charles, no. The suggestion straightforwardly is that the BBC should be given a settlement of the licence fee to take it between now and switchover, given that switchover costs are a very, very large line item in this settlement, and that the expectation should be that the next settlement should begin after switchover, presumably with a debate about the future funding of the BBC and the future level of the licence fee which will begin a couple of years earlier. I mean, if you look at the breakdown of costs, both cost the BBC would spend on its own cost toward switchover and also the contribution the BBC's been asked to make to industry costs of switchover and for targeted help, it's a very large part of this settlement, and I think it's reasonable to say, give the BBC a settlement to achieve this second big bit of digital infrastructure build-out, building digital Britain, then review things afterwards.

Charles Allen: That is absolutely misleading. It's less than 1% of the setup and we're very happy with that, but what the BBC seems to forget, and I'm a bit fed up with the BBC repeats, we've had three repeats. We had the BBC getting 200 million, you know, when ...

Lord Burns: Somebody has a telephone or blackberry that is switched on that's somewhere near to a microphone. You don't have to own up, it's all right.

Charles Allen: Let's go back and look at it. Ten years ago, the BBC got £200 million for move to digital. In the settlement until Christmas, you got an inflation-busting settlement to move to digital. This time you're using the same repeat argument again, and frankly we're only talking about 1% of the overall licence fee, so I think it's misleading to say it's really to drive the move to digital. I think that's just wrong.

Mark Thompson: Well, I mean, provisional costs are much more than 1% so I mean, you know, it's simply not the right numbers but ...

Lord Burns: Now look, this is not your last shot at this but I would like it if you, you know, get some other people involved in this discussion. I'm going to start down this end with Paddy.

Patrick Barwise: Thanks very much, Terry. Well, thank God we've come to the last session in the last seminar.

Lord Burns: Is this supposed to be a judgment on these seminars?

Patrick Barwise: Absolutely not, but it has been an exhausting process, and inevitably today we're focusing a lot on money, and I'd just like to sort of think about that, because it's worth remembering that the amount of money we're talking about, relative to the scale of discussion and analysis, is peanuts. There is no other area of public policy in which the ratio of analysis and debate and discussion to the amount of money we're talking about, you know, is anything approaching what we've been doing here. Why is that? The reason is that broadcasting and particularly the BBC is enormously important to the people of Britain, but it's much more important in their everyday lives and in political and cultural and social terms than it is in economic terms. So of course it's important we should look at these issues but can we please put it in perspective of what matters to the 58 million people out there who spend 25 hours a week watching television, and another 15, 20 hours a week listening to the radio, and a lot of time online, and so on. The amount of money we're talking about is trivial relative to this debate and also relative to, you know, the public sector in general and so on. I'd like to make two very obvious but sort of key distinctions which sometimes get a bit blurred. The first is you get two radically different views of the BBC which are sort of describing different universes. There is

one perspective which is the competitors perspective, very understandably because it's a big player within their world. It's also the perspective of people who ideologically object to the compulsory licence fee. There is another perspective which is the perspective of the customer, the 58 million people, and they're very, very different from each other. In particular anyone who uses the word 'distortion', that the BBC is a distortion of the market, they are using the language of the first of those two perspectives and within that perspective, it's a perfectly reasonable word to use, because a distortion is a large difference which creates a situation which is less good than the situation would be without it. It's not a neutral term. The public don't use that term, OK, they're just not interested in that. What the public is interested in is good programmes, pretty much full stop, not that interested in even, you know, where they come from. That's what actually matters. The other distinction is between existing services and new services, and I make a very, very sharp distinction there. If you do look at, you know, what the public thinks and in particular if you don't ask idiot Mickey Mouse questions of the form slightly more grown up than, 'Do you like to pay more tax or less tax?' but if you actually take the time to give people the genuine policy choices, then you end up with enormous support for the BBC. When we ran the one-day workshop with OLR, we started off with an 86% at the beginning of the day approval of the BBC, meaning people who checked boxes 6 through 10 as opposed to boxes 1 through 5. We ended up, after they'd gone through several resource allocation exercises, we ended up with 93% approval of the BBC when they actually realised the real resource allocation choices which were being made, so as far as existing services are concerned, you know, the simple story is that the BBC is enormously valued, enormously trusted, enormously important, OK, that's the starting point. There are a lot of secondary issues. There is a significant minority who wouldn't agree. There are obviously issues about cost control, you know, lots of secondary issues and those have to be addressed, but the starting point is, you know, this is something of enormous public value and the question is, how do we move on from here? When it comes to the public's view of new services in general, and in particular in the context of digital, then the public definitely agrees with the government that the BBC should be a trusted guide, that the BBC should be in general involved in these new developments. In broad terms the public is extremely aware that if it weren't for the BBC and Freeview, we wouldn't, you know, we certainly wouldn't be talking about analogue switch-off in five years' time, we just wouldn't be here. The BBC came along, rescued the mess which was ITV digital, got the digital show on the road again. BBC Online is a huge success and so on, so in very broad terms, the public is extremely supportive of the idea of moving forward. However, as we saw in that very interesting discussion which we had before the last break, when it comes to specific services, I personally am actually extremely hard line about this, that I think we're in danger of some sort of headless chicken behaviour largely driven by the BBC itself, and therefore with all the commercial players, because of the BBC behaving like headless chickens themselves, and we haven't thought through the principles of what should be free, what should be paid for, you know, what are the true incremental costs and opportunity costs of 7-day catch-up? What is the impact on the internet if we suck up a huge amount of broadband and who's actually going to pay for that and so on? What is the true market impact, OK, so my personal view is, as far as the new services are concerned, I completely agree with what Michael Grade was saying, we need to stop, you know, calm down and look at these things very, very carefully with Ofcom doing a market impact assessment. I'd say the same is true of ultra local TV, the same is true of mobile and so on, that we start off with something which is very, very good, very, very highly valued, highly trusted in terms of moving things forward in terms of digital in broad terms, but it needs to be looked at much more closely in terms of the specifics, and also the quality of consumer research needs to be raised in terms of the specifics. We've had very good initial research on this but, you know, one of the issues I picked up in the report I recently did for the governors was my hunch is a majority of the respondents to surveys, the participants in the one-day workshop for instance didn't realise that a lot of the new services would not be delivered through the television, they

would be delivered through an online P.C. which has to have broadband, OK? Now, to a technologist, that's a trivial distinction. To a consumer marketer like me, it's a colossal distinction, OK? Simplicity, convenience are very, very important in consumer markets, so I think we need to sort of calm down a little bit. I should also add that I think we're getting far too over-excited, prematurely excited, again this is sort of like groundhog and back to 1996 about on-demand TV. I will finish, Terry, with one killer stat which is ...

Lord Burns: You've been promising me this all day. It had better be good.

Patrick Barwise: Well, I think it's very telling, which is that Barb is starting to release data on the use of time-shifting versus live viewing in Sky Plus homes. Now, Sky Plus is an extremely good product. Even I can use it. You don't need a teenager. This is a real breakthrough, OK? As I've always said, the sad thing about the PVR is, there is now no value in having a teenager in the home because people like me can actually work the technology. It's really convenient, it's been very, very well positioned, but 86% of the viewing is live, so all the bollocks we're hearing about we have no idea what it's going to be like in five years' time, wildly exaggerated. I will tell you for free, in ten years' time, most viewing will be live and it will be off things called TV channels. Thank you.

Lord Burns: Thank you very much. It's a long way from most to 90, what was it, 92%?

Patrick Barwise: 86% live. It's pretty telling.

Lord Burns: Yes, but what I'm saying, it's a long way to get down to 50. Steve, do you ...

Steve Hewlett: Well, I'll try and follow that if I can. Well, I'll just say a couple of things really. In terms of the BBC's market impact in general, I've started to think that this is becoming quite ideological now. Once upon a time during the days of the duopoly, you could rationalise the BBC's market impact by essentially acknowledging that there really wasn't any, and if there was it was generally positive. If viewers decanted to the BBC, then ITV's price per thousand went up, and if they came out again, it went down, so it was almost like it had little net impact on revenues and we know that the competition for viewers, you know, wasn't damaged by that but nevertheless it had little commercial consequence. This is the kind of intermediate stage in multi-channel television where what the BBC does has more impact on smaller players because they're selling advertising in different ways. It's a bit more like radio where, you know, if you advertise a soap powder on Friday and you haven't sold any by Monday, you don't care about the demographics, you just don't advertise any more. So the BBC's impact as in the market-place in multi-channel is going to be more significant. In the online world, it seems to me that the BBC can't do anything without having a deleterious market impact on somebody. By definition people watching the BBC or utilising BBC services are not paying someone else to use their services so, and do you know what? Having chaired the BAFTA drama series jury this year, the prizes for which will be given out on Sunday night, the quality, and this is not to do with other people's drama, which is fine.

Lord Burns: It's called an advert.

Steve Hewlett: The quality of BBC drama was absolutely outstanding, and I kind of think, if that means my little cottage business doesn't quite work out as I'd like, it's probably in the public interest the price worth paying. So I think we maybe just have to accept that at some level the BBC will generate market failure, and that is a price worth paying. In terms of value for money, and the bid, well, the PKF Report seems to me to say quite a lot, but I take Paddy's point that the

audience don't, probably if you gave them a lot, the audience wouldn't mind that much. Specifically I may say just a couple of things about the points that were mentioned here. Quality content, well, I think the discussion today illustrated for me, leaving aside the PKF comment, this needs a lot more work. Actually you can begin to imagine forward the consequences of take last week's big story in creative futures. Well, in a world where channels are if not unimportant, let's say less important, then the whole question of switching the mix from repeats to originations, what is an origination, what is a repeat? If it's all available on demand, what's the difference. You only need all these extra things if you've got lots of channels. Well, in a world where channels become less important, maybe you shouldn't have so many channels. Maybe you won't need as many channels. Maybe you have less content altogether. It raises up a volume that you can begin to model some of these scenarios which would help me with the quality content issue. New plans, well, we discussed that. I think it was pretty clear that as I think Jana pointed out that there was no account taken in the bid for any commercial revenues that might be raised as a consequence of charging for any of these services.

Mark Thompson: What you said, I think it was exactly the opposite of that, which is there is an assumption of commercial exploitation in these new forms, very like we currently do with our programming in existing media.

Steve Hewlett: And roughly speaking, how much is it?

Mark Thompson: Well, the assumption is, if you don't get an independent production, the assumption is, well, actually in that case what happens, there'll be commercial exploitation but the value of the commercial exploitation will be largely enjoyed by the independent producers.

Steve Hewlett: No, what I mean is, £1.2 billion as the number, that's for new media content. What would it be without the commercial revenue?

Mark Thompson: Well, that £1.2 billion is for, as it were, public service windowing of that content. Does that make sense.

Caroline Thomson: If this helps, Steve, it's not a net figure, net of the commercial revenue. Commercial revenues are expressed in a separate place.

Steve Hewlett: So £1.2 billion is not a net figure. What is the commercial revenue associated with new media ventures?

Mark Thompson: Let's just try and understand the philosophy first of all. The philosophy is of a licence fee which pays for an initial public service window that's going to be on BBC1. It could also be part of that 7-day catch-up, so there an initial window where licence payers, you know, in respect of the licence fee, get a chance to watch programming. Some programming frankly, that's the value and there's no further residual commercial value. Our presumption is that value should continue to be made available for people to use, so you know, as it were, the Reith Lectures continue to be available thereafter. Many other kinds of programme will then go into commercial exploitation for a period and then ultimately we think there will be again ...

Steve Hewlett: I don't disagree with any of that. All I'm saying is that ...

Mark Thompson: The £1.2 billion is in respect of public service rights, not commercial rights which would be exploited by BBC worldwide or by independent producers and which will

deliver profits to the BBC but that's expressed, if you like, in the commercial profit projections which are also part of the bid.

Steve Hewlett: OK. I won't press you on what the number actually is, but the only issue I'm pointing to is that I think with more work, I could be convinced about the quality content and the new media issued. HDTV I don't have any doubt about at all. I think if the BBC isn't in HDTV I think it'll prove to be a dead letter in somewhere around 8 years' time. May I just take two minutes to bore you with the case for a move out of London. I think this is really dicky, and I make no comment about the value-for-money issue, particularly whether, first of all it's quite hard to swallow because it looks for all the world like payment for failure really. The only reason the BBC is in the state where it needs to make such a big move to Manchester is because the BBC has steadily withdrawn over the last 20 years from its more significant regional outpost of which Manchester was one, I used to work there. So I suppose we can leave that behind because if the BBC's going to do anything, we're going to have to pay for it, so whether it's a failure or not, I guess we're in the chair. The principal objectives, to generate some different cultural expression for the BBC, to make it less metropolitan, to embrace the nation in the way that it sounds, feels and means itself simply will not be achieved by this current plan. The days of the big battalions in TV are over. It's absolutely obvious, Channel 4's tricky coverage, you know, showed that a small independent production company can turn in coverage as good as anything the BBC, with all due respect to people who work very hard in there, has done. I don't say the BBC shouldn't do sport or it doesn't need a sports department. My earnest prediction is that once you've moved the 6 or 700 people or however many it is, from London to Manchester, you'll spend the next five years making most of them redundant. Now, it seems to me that the BBC managers can get very excited about head count, that's what they're excited by, and they can also get very excited by making them redundant, that's what they do. However, in terms of the net cultural impact, it seems to me, it runs the risk of being very expensive for not a lot. If by contrast you bit the bullet, moved a channel with significant commissioning power, not withstanding that channels may in the future be less significant than they are now, you could do it a week next Wednesday, it would cost about 5 million quid and you'd be seeing the impact of it before this process is even complete. The other thing, it would work with the grain of the BBC, where everybody knows that the most important thing is beating the crap out of your colleagues, and as such you could expect real internal competition. You could embrace Ofcom's perceived public service deficit by generating internal competition with a channel under the new governance arrangements, licence to compete with other aspects of what the BBC does. I genuinely think that somebody, and I please hope the governors, the Trust, whoever it is, will subject this plan not just to a nuts-and-bolts value-for-money assessment but to a conceptual assessment in terms of whether this is a way to make the BBC sound, feel and actually be different.

Lord Burns: Thank you very much. Ed, are you ready to jump in at this point?

Ed Richards: OK, let me make the main point that I wanted to make then, which picks up on the conversation Charles and Mark were having earlier. I think the central thing that we're worried about in the debate is this 7-year settlement and the prospect of it being as long as or if not potentially longer than that. I know that people have discussed earlier on in the day the issue of how fast the market is moving. I mean, that is certainly something that we would completely endorse. It is moving faster than I think anyone predicted in the past, at the moment, but crucially also the one thing that we know about the lead-up to switchover is that our model of public service broadcasting is changing. I hope we've discussed this on many occasions in audiences of this kind, and it is pretty well agreed or established now that the form of traditional and a long public service broadcasting ecology that we had is breaking down, has been breaking

down for some time and will have essentially broken in many ways outside of the BBC in particular, by the time we get to 2012. For that specific reason I think it is very important that the settlement is not for 7 years, that it should be more like 5 years, to ensure that when the government does the review that it reports very, very clearly in the White Paper, that it proposes to have a review of the overall delivery of public service broadcasting with a wider remit, with the wider public interest, not just the BBC at its heart, and including the question of the distribution of public funds, not only the licence fee but public funds, which is what the paragraph says, that we need to do that early enough to make sure that any action that is determined as necessary at that point can be done and can be ready as we move into the post-switchover world. So in our view, for that reason, a 5-year settlement would be much, much more sensible. But there's a second set of reasons for that as well, and this is one or two of them. Firstly, presumably it is possible that in light of MIA's or indeed the PVA's, that some proposals that the BBC make may be turned down, but the bid at the moment has all those proposals within it, and therefore to give a settlement that assumes a certain amount of money, in some cases a very substantial amount of money for services which may in fact be rejected by the Trust, doesn't seem to make sense, you can't do that beyond a certain point in our judgment. Given the number of proposals that are likely to emerge over the first year or two, five years seems much more sensible than seven. Another example to illustrate this point is spectrum pricing. There is £300 million in the bid for spectrum pricing, but actually no decision has been made on spectrum pricing in relation to broadcasters. The £300 million includes a new marks dedicated to high-definition television. No decision has been made nor will it be made for months to come, certainly before the end of the year, on whether or not such an entity might exist, so there are a number of reasons in our view why a 5-year settlement rather than a 7-years might be much, much more sensible, not just in the BBC's interests of good accountability and transparency, but in the wider public interest in relation to making sure we go into that post switchover world with a really effective fit for purpose public service broadcasting mix.

Lord Burns: OK. Patricia?

Patricia Hodgson: It might be worth spending a little bit of time on a kind of broad brush top-down check against the bottom up debates that we've been having, and to a degree I think at some point you have to take the outcome of a long process like this which has been going on for about three years, hasn't it, about what the purpose of the BBC is and what its services should be, and say, 'OK, we're closing that down now and here's our best guess of the cost of it.' Leave aside the 0.5% bid that is for help for the digital industry as a whole and for paying spectrum tax, the latter because it's clearly absolutely barmy for a public service. It's a bit like putting VAT on any patients that survive treatment in the National Health Service, you know, 'You've had valued added, here's a tax on it.' Absolutely incredible, and the other bit of it helping the industry, I mean, you just decide how much and that's it, and so let's look at the 1.8% above RPI that the BBC has bid for, and it's made up of two elements clearly, one the auditable bit, the efficiencies, the projected commercial returns and so on, and the other, the areas of judgment, because the cost of technologies, whether it's over 5 years or 7 years, the cost to quality over that time has to be a sort of suck-it-and-see based-on-experience question of judgment. So let's look at those two inputs. On the auditable bit, even your friendly critics would say, wouldn't they, that the BBC has not done anything like well enough. 1.3% efficiencies would be cause for firing somebody in the commercial sector, and it must be extremely important both for management and the Trust over the forthcoming period to get a better grip on genuine efficiency savings, and the clarity of which is efficiency and which is coming from somewhere else and, you know, the hand is faster than the eye. That's been going on for a long time. And if you just look at that target, 3.9 billion for what the BBC will deliver from self-help in general over the coming period, which by chance happens to be the same as what it said it would deliver last time and has done so by one means or

another, clearly it can't be high enough because it's from a bigger base, and after some profligate years under your predecessor, so you know, a bit tougher there. But take the other side of it, the cost of new technology, whatever it turns out to be over the forthcoming period, and the cost of quality. Well, what does the recent past tell us about that? That the BBC clearly did a very impressive job on driving new media in digital with Sky, and in Online really taking the main base itself. In 98/9 when the previous debate was being had, nobody could know what that would cost, and actually 1.5% above RPI for that and the services on these new technologies is not a very large sum. I mean, as Patrick said, it's peanuts, and yet it's made a market behind which there had been extraordinary flourishing elsewhere, which is clearly moving the UK into a pole position in new media around the world, quite apart from the audiences, making it quite clear that this is what they like. So the question then is, of this 1.8%, how much is going to be absorbed by the cost of new media over the next 7 years, and while one yearns for a bit more auditability, I don't think you can move over to try to micro-manage it actually. I think there is some sense in the Trust be really rigorous as it comes along. How much is for that and how much is for the quality of what's on it, and this is the dog that hasn't barked a lot so far, I think, because Ofcom is now monitoring year by year, or carrying on a survey that the ITC used to do about perceptions of quality, and those who have seen that will know that it took a fantastic dive as digital took off, and it wasn't a blip, and that dive has gone on, and there is now getting on for jointly, well, it's sort of 45% saying it's much the same, 45% saying it's getting worse, and it's clearly one of the biggest perceptual problems out there amongst the audience. So we should be very careful about blocking the BBC into a position where it will inevitably be delivering on the new market, without delivering on the quality because the fact of the matter is, and this goes back to debates that are 80 years old, that there are certain things that the market can't take a risk on, and we know that as audiences are fragmented, as there are more services to reach the same people, and as the cost of distributing those services goes up, the pressure on everybody but the pressure that the commercial people cannot buck, is to thin the investment in content, and you then go back to this extraordinary mechanism which is that if you spread the cost of that very thinly across 20 million households, it's a small amount which enables the BBC to buck that problem, and so, you know, this is sort of old-fashioned broad-brush stuff, but I do think it's worth just a commonsense top-down check.

Lord Burns: Thank you very much. Jocelyn?

Jocelyn Hay: Yes. Well, I'm delighted to be here as one of the very few representatives of the licence fee payer, which is what we're talking about, and indeed I'd like to endorse Patricia's point about quality programming, because what licence fee payers are interested in is getting value for money and the programmes they want to watch. I would also endorse I think absolutely everything that Paddy said on the licence fee. Licence fee payers want the BBC to be a big elephant, it always has been an elephant, and there's a reason for it being an elephant in this particular market. It's there with that critical size as a large body that can provide a public service which is publicly funded and should be publicly accountable as well. I think we would like a lot more transparency and information about the actual costs, but that's something that I think we're going to get. I see Charles is nodding. I would like to say that we appreciate ITV as well, and 5 and 4. We are not against commercial companies. We acknowledge the fact that in many ways the miracles of British television has been that ITV could compete with the BBC in range and quality, certainly in the past and we'd like that to continue in future, and we hope that ITV will continue to play a significant part in the public service environment. Channel 4 as well. Channel 4 is different from ITV because it's set up as a public corporation, and therefore it does not have to serve its shareholders, it might have to serve its advertisers but not its shareholders. ITV unfortunately is in the position of having to serve both its advertisers and its shareholders, and that makes it totally different from the BBC which with its public funding is able to put the

interests of its audiences first and above all else other broadcasters cannot. That's what singles it out and makes it different. Commercially funded broadcaster are about delivering audiences to advertisers and sponsors. Publicly funded ones are about delivering programmes to audiences and we need to remember that, and I think when you look back, as Paddy was saying, yes, of course there are some people who object to the licence fee, but broadly there is huge support for it and for the BBC being the major player, because of the role it plays in our cultural life, in our democratic life, in the news and information that it brings, in its patronage of culture and in our social life both with its major events and contributing to social cohesion at local, national and nation and regional level. In the new media forms, we do want them to go into new media because the BBC has proved itself to be a trusted friend, and whilst we feel well towards the BBC, don't think I'm not critical. Voice of the Listener and Viewer is highly critical of the BBC on many occasions, but we recognise the value of the role that it plays, and I think in new media, because with its public funding it has that freedom from commercial pressures to innovate and to take risks whether it's in programming or in new services. That is obviously one of the ideal areas for the BBC to go into, and I think in this respect, one of the areas that we would like to see it go into, a couple of people have mentioned here the leading role that the BBC played in rescuing Freeview, we would like to see the BBC go into a free-to-air satellite service. This is one of the areas in which we take exception to the PKF Report, because they see no need for that. Sky is providing an excellent service on digital and in satellite, but it's not the same as a BBC service would be, which would be totally free to air, genuinely free to air without the need to have a viewing card, if it were free to air, and without any of the strings, if you like. The point is that there is no competition in satellite delivery, and that would actually deliver a lot of benefits to viewers. So I think there's a huge area here in which the audience should be listened to, should be heard, because they're the people who pay for it. Whether we pay through the licence fee, whether we pay through the hidden cost of advertisements on either commercial radio or on ITV or Channel 4 or 5, in the end it is the individual citizen who's paying for this, and I think you know, one of the exceptions I take to the PKF Report is the fact that it seems to have been produced without much input. I haven't read every page, I admit, not yet. It's a most ghastly report to get through, I'll be honest with you, it is, but it's quite formidable, with all its loose pages apart from anything. But ...

Lord Burns: I will say nothing.

Jocelyn Hay: No, don't, but I do think that, you know, in the end the licence fee payer is paying for this one way or another and should be heeded, and yes, the commercial rivals have a role to play. We welcome the services they provide, but there is a huge platform both here today and there has been for those, but not enough to hear what actual real people, listeners and viewers, want and would like to hear. When they hear and know and have information about the BBC services, they feel quite differently, but they don't understand, but they do expect in future to have far more transparency and far more easy-to-read accounts from the BBC, because again, like the PKF Report, they are incredibly turgid and difficult to get through. They're not transparent enough.

Lord Burns: So you're quite happy with RPI plus 2.3%?

Jocelyn Hay: I think there one needs to look at the extra costs. No, we haven't got enough information on it. I think people would take a reasonable amount above the rate of inflation RPI if it is explained to them why it is necessary and where the money is actually going, but I think one of the big bottomless pits is digital switchover. A lot of the costs there have not yet been quantified. The BBC is already paying quite a lot and it got that settlement of 1.5 in order to do that, and it's done that and I think delivered it pretty well, but before it goes much further, I think

we need much more information about the actual costs, and particularly the one on helping vulnerable viewers, and the irony and illogicality of the government getting the Department for Work and Pensions to help the over 75's to watch television by giving them free television sets which is highly laudable and we commend that, and we believe it's highly laudable and desirable, indeed essential that over 75's should have access to digital television, but surely if you've given them a television set, the means to convert that set to digital should come out of the same pot, not out of a dwindling band of licence fee payers in a population which is ageing, so there'll be more over 75's than licence fee payers.

Lord Burns: Thanks very much. Lisa.

Lisa Kerr: Were we told earlier that people would pay handsomely for the BBC on a service by service basis if they were asked to do so for BBC 1, for Radio 4, and I think it's important to remember that the same would also be true of commercial broadcasters. If you asked Classic FM listeners to pay for that service, they would value it highly, the same would be true for Moray Firth Radio (we need to remember local broadcasting) and for Channel 4. What matters to the public and therefore to the UK is not just having a strong and independent BBC, but also a strong and independent commercial sector, because that sector also matters to our economy, and our companies generate wealth, the wealth that pays pensions, the wealth that pays taxes, and the wealth that enables people to be able to afford to pay the licence fee. We are recommending in our submission that the BBC's bid for RPI plus 2.3 should be rejected. Well, why? Well, because of its current use of funds. It's spending money in some of the wrong areas in radio. It's using public funds unnecessarily to deliver services that damage the plurality provision and commercial enterprise by competing for those most commercially attractive audiences that Paul was talking about earlier. 25 to 44-year olds have moved towards the BBC over the last six years by up to 20%. It's spending too much money in radio; that's our experience of talent prices being inflated and it's PKF's conclusion in the media market in general. We think that universality has gone a bit mad really, there seems to be a desire to provide everything for everyone on every platform. The current BBC bid is a really good example of that. The new idea that BBC local radio not only being the only local service that should be guaranteed DAB access, should also be provided on DTT and online. Quite simply it's time to constrain these tendencies and to force a proper prioritisation. Mark talked earlier, time and time again, about priorities, and yet we didn't hear any priorities, we heard, 'We'll do that as well as, as well as, as well as ...' This bid includes funds for services, at Ed has said, that have not yet been approved, including four new BBC local radio stations. BBC has been in local radio for 25 years. Why is it in 2006 that we're hearing about four new BBC local radio services that are absolutely essential to licence fee payers, and why is the cost of those services, services that haven't been through a public value test, services that haven't been through the BBC Trust, why is that cost in this bid? The BBC licence fee should be set at a level to run approved services, the services that already have approval. The BBC has enough, no, actually it has more than enough to run its existing services. PKF has said very clearly it can improve quality without raising costs. The licence fee payer deserves better value for money than has been delivered to date, and the only way we can guarantee that is to do for the BBC what we all have to do, make it live within its means. That doesn't mean giving up on new ideas, it just means like the rest of us, you have to set priorities.

Lord Burns: You want to reject the bid but do you have another bid in mind?

Lisa Kerr: Yes. RPI minus the efficiency savings identified by the BBC.

Lord Burns: Good. Graham.

Graham McWilliams: Thank you. I think I'd like to start by saying I endorse very strongly where Charles started on the issue of the size of the bid and the lack of transparency and a lack of information, the opacity of the numbers that have been presented, and also what Jocelyn says about the PKF Report. I mean, even reading it does your head in just trying to understand what it is that the BBC presented in the first place and therefore trying to understand the numbers is very difficult, but as that's already been covered, I'd just like to sort of concentrate just for a moment instead on the impact on the rest of the industry, and I think the BBC's proposing to spend an extra £6 billion over the next 7 years, that's sort of £869 thousand a year extra on average, and with respect to Paddy, I don't think that's peanuts, that's a huge amount of money, and to put it in context, it's 30% more a year than the BBC spent on all its public services in 2005. It's equivalent to the whole BBC1 budget, the increase, and it's two times the total revenue of the commercial radio sector, so it's a very, very significant increase in spending.

Mark Thompson: Peanuts. The point is, the point is, I mean, you may say one's grateful for the support of peanuts. The point is, that's not extra money. Much of that is existing licence fee reprioritised. That figure is not new money, that's not the licence fee extra RPI plus bid. Most of that, most of the list of things we want to do we're saying we're going to pay for ourselves by becoming more efficient.

Graham McWilliams: But its spending it on new things, so it's going to have an impact on the market. I mean, what you're saying is you may be able to provide the existing things more cheaply ...

Mark Thompson: And we're going to withdraw it from existing things.

Graham McWilliams: I'm not sure what the existing things are that you're going to withdraw from. So I mean, I think the point about it is that it's a large, very large amount of extra money that's going to be spent on new things and it's bound to have a very significant impact on the market. I mean, I'm astonished that Mark thinks apparently the BBC's exogenous to the market, that it's going to have no impact. I mean, it's going to have a very, very significant impact, and the White Paper sets out the process by which decisions about new investments where the BBC are going to take into consideration the impact on the market, most importantly the market impact tests that Ofcom are going to conduct, and I think, you know, it's a very, very important part of the process and we, you know, look forward to engaging with those case by case as the new services come forward, and I'm reassured by what Michael Grade said earlier about making sure that things don't slip in under the wire, but I do want to sort of go back to something that was talked about this morning about the, essentially the £3 billion that the BBC's proposing to spend extra on its existing services, that's the quality content and the super-inflation. I mean, that's a large amount of money that's going to go into what I surmise is essentially existing services, and the question I have is whether, you know, that extra investment is going to be subject to the sort of approval process set out in the White Paper, because the White Paper talks about looking not only at new services but significant changes to existing services, and I would put it to you that a significant increase in the budget of an existing service is a significant change to the service. It's not just about remit of that, and I think that these things should then go through that process, they should be subject to proper market impact assessment, and that should then allow a proper analysis of what the impact of all this extra spending will have on the rest of the industry.

Mark Thompson: And that is the plan, that's the plan.

Graham: I'm very pleased that that is the plan, but I think it's still an issue we haven't got certainty on and maybe you can sort of help with it on the definition of what counts as a significant change, indeed the definition of what counts as a new service, because I think last week and you know, it may be that you somehow misquoted, but you know, the press stuff about the creative future announcement suggested that, you know, most of those things were things that the BBC felt wouldn't have to be subject to the formal approval process as set out in the White Paper, because they were somehow just extensions or enhancements to existing services, so again I think I would call on the Trust, 'cos the Trust is the body that's been charged with this and the industry will be looking to it to sort of err on the side of caution. You know, if there's any doubt that something's going to have an impact on the market, you know, to make sure that there's a proper process it goes through, and obviously that will allow the various parties who'll be affected by that, you know, such as ourselves but, you know, all the other people here as well, to feed into that process, and I think we're, you know, happy to see how that works and to go along with that, but I think it's important that process happens, and I think that's the thing we're concerned about.

Caroline Thomson: Terry, sorry to interrupt but if we could just be clear, 'cos I thought we'd cleared this up this morning and indeed Michael Grade, you know, could add to this and wrote to *The Financial Times* about it last week. All proposals for new services will have to undergo a public value test, they will have to receive a service licence from the Trust, and they will do that, and as was said this morning and was said by Michael in his letter to *The Financial Times*, nothing is getting in under the wire. We are already in discussion with Ofcom about the market impact assessment for I-player for example. Just because we're in a transition period, we're not proposing to launch anything, you know, behind the scenes or through the back door or anything like that. The governors are in the process of preparing draft service licences for every existing service. Those will have key characteristics. Any significant change to those key characteristics will then have to have a market impact assessment and a public value test, the Trust will have to decide that. Part of those key characteristics will be a budget. There will be parameters for that budget. Any significant change to that budget will again have to be, I mean, you know, talk about ... And what makes me slightly at a loss, Graham, if I may say so, is that most of this, I mean, all of this is in the public domain. I mean, if you read the White Paper, the draft Charter and the Agreement, it is written down there and it is about to go through parliament.

Lisa Kerr: So why are you asking for money for services that haven't yet been approved?

Mark Thompson: Well, because what's happened is ...

Caroline Thomson: Because we're negotiating a 5-year, 7-year budget, aren't we.

Mark Thomson: The White Paper sets out the set of public purposes of the BBC and has lots of pointers to what the government wants us to do. You know, we absolutely understand that. The government also wants to achieve a long-term financial settlement with the BBC. Now, you can argue and make the case for five years rather than seven years, but a long, long one, a financial settlement. Michael Grade made it quite clear this morning that if in the end, you know, the BBC Trust believes the BBC can achieve its public purposes, that a given proposed service does not meet the public value test and therefore should not be launched, and the public purposes can yet still be achieved, then that part of the licence fee increase, licence fee, will either be given back or not taken in the future year, so if the money is not needed to live the public purposes, and if one of the, all the proposals are based on the public purposes that's been set for us in the Green Paper and White Paper. These are intended to deliver the public purposes set for the

BBC. If one part is thought not to do that, or that the market impact is so great, it obviates the public purpose, what the Trust will do is, they won't take the money.

Lord Burns: I've got a particular problem which is that Tim has to go in a couple of minutes and I just want to give him one last shot at this.

Tim Gardam: I'm just going to say, I was fascinated by the session all day and coming to a head now is the absolute critical role of the Trustees who, they're more distanced than the governors were, in many ways they're going to be far more critical in terms of the credibility of the BBC's operations in the market and personally from what we heard, I think it sounds pretty convincing, but I think it's rather interesting that the process whereby this licence fee has been put together is essentially you're getting a menu with prices, and we've heard from Ed questions about whether to spectrum charge or not and how much the money will be called upon for various aspects of the digital switchover. We heard that if Manchester is not going to cost so much, then that money, if it was significant, might be held back by the Trustees, so we've got a rather interesting licence fee bid where in the end you can see the Trustees sort of building up a slush fund of money to be handed back to the BBC licence payers as shareholders which will be a fundamentally different sort of ecology I think. In terms of the ...

Lord Burns: I mean, that could just be kept and then offset against any future charges.

Tim Gardam: Well, I think Michael did say it could be handed back.

Caroline Thomson: Indeed the draft of either the charter or the agreement makes specific provision for that and what should happen in those circumstances, Tim.

Charles Allen: I see Ed's eyes just lit up so it could also be handed out.

Ed Richards: You're reading far too much into my eyebrows!

Tim Gardam: I thought the only two other points I'd make is, I think the BBC ought to be aware about being accused of exceptionalism and I think the concept of super-inflation is one that needs to be bottomed out a lot more, 'cos otherwise it sounds a bit like special pleading, because all commercial operators are having to deal with the prospects of inflation in high tech industries. The call to content £1.6 billion, everyone thinks here that one needs more detail on this. I think the thing we should remember is, in the past the BBC has justifiably asked for more money for quality programmes because it's been running behind with the investment of its commercial competitors. As one looks forward into the future, it's likely there'll be less money from commercial competitors going into originated content. Now it could be an argument therefore there's more of an incubus on the BBC to deliver that content, but it's a very different argument to the one the BBC's put in the past for increased money for quality. One final point which I'd just like to keep in mind, which we've talked a lot rightly about market impact. I think, and I hope the Trust will also consider the concept of public service impact, because one of the key things that the government has said they wish to try and maintain in a very different sort of market is public service competition, and the area which I'd just like to clock, because it hasn't been mentioned today, is that of news, because I think there's no more important role for the BBC in the next ten years than to ensure reliable information in a digital age, and yet there's no more important public service or public policy imperative than that there should be a plurality of reliable information in the digital age, and I worry slightly that although I can see the huge attraction of BBC local news services on broadband, the difficulty of the impact of that both on commercial radio, where a lot of the stations, small stations, at the moment where the BBC are

going to put their new local radio stations without BBC competition, are providing good local news, and the impact on local newspapers in a world where we can no longer see what the for-profit framework is going to be for the provision of news, it'd be very bad if the BBC for the best possible intentions ends up making even more of a crisis than there is and how news is going to be provided and the plurality of news they're going to provide in the future, so I think that is an issue which is beyond narrow market impact, which also ought to be taken into account.

Lord Burns: Thanks very much, Tim. I think the next step is to throw this open for a while. Microphone, down the front here.

Audience Q: Emiko Terazono of *The Financial Times*. On the topic of getting new services or significant changes, not getting that through the back door or under the radar, in a lunch with some media journalists earlier this week, we discussed the new creation of the new teenage brand, and Mark, I think you said that the creation of the teenage brand wouldn't have to undergo market impact for public interest test because you already have teenage websites and you already have teenage programming, and bundling that together doesn't constitute significant changes.

Mark Thompson: No, but the proposition, if the team proposition which is, you know, it's an emerging idea, is a combination, let us say, of parts of bbc.co.uk and let us say a new long-running drama on BBC 2 or BBC 3 and one or two other elements, each part of the proposition will form part of those services licences. Now, we already have extensive services for teenagers across our web sites. They will be captured in the service licence. Any change to those services, if subsequently we change them, would be captured by the service licence, and the service licences cut down through each BBC service. Many are offerings. BBC News for example is an offering across lots of different BBC services, but it's not outside the system of service licences, it's captured by the services licences and significant changes to the service licences will trigger the issue of consultation, market impact assessment and so on.

Audience Q: So you're saying that the creation of a teenage brand would undergo, I'm just a bit confused, sorry.

Mark Thompson: No. Well, here's the thing. I think there as a proposition, it's a proposition which will form part of the strategy and therefore the service licence for BBC 3, it'll form part of the strategy for our web site, for Radio 1 and so on.

Charles Allen: Doesn't it feel like a balloon you're trying to grab, and every time you try and grab it ...

Mark Thompson: At the same time, Charles ...

Charles Allen: ... you're incredibly articulate and you really put your case across well, but the public and your competitors, there's nothing to hold on to.

Mark Thompson: We know that the public want BBC service to evolve and to respond to their need, and to be honest, a system of control of the BBC, which doesn't allow the BBC to launch a new creative brand, is not one which is going to serve the public well. I mean, you know, the reason we've got proposals for specific local radio stations is because intense licence-payer pressure to serve those communities with local radio, they feel they've been left out of the local radio chain, they are passionate about wanting the BBC to, they feel the BBC's not offering them enough value, that's not at the heart of that, it's about serving those communities better. Should

each of those radio stations be tested? Of course it should, against the local market, and if in the end it is judged that the market impact outweighs the public value of the local radio station involved, it shouldn't be launched.

Ed Richards: We are going to wrestle with this, without any doubt, until we have a base line. What we need is a base line. We have to have a clear set of service licences for existing services. Only when we have that will we know what a significant change to an existing service is, and only when we have that will we know what a new service is, and I can hear this conversation taking place time after time.

Mark Thompson: This methodology, there will be consultation about it so there'll be opportunities for people to feed into the process of deciding these questions.

Ed Richards: There will, but the key thing will be, you know, between now and when we can move forward on this is that somebody, presumably it is the Trust, needs to bring forward a base line which people can see, look at, which we can understand where we will or will not be doing MIA's again and so on and so forth, and until we do that, well, we know what the theory is, Caroline, we need the actual base line.

Caroline Thomson: No, no, as I said, the governors are publishing draft service licences which they've had extensive consultations with Ofcom about already, this summer, in the next month.

Graham McWilliams: Will they be based on the existing services.

Ed Richards: That's the key.

Graham McWilliams: Or will they be based on existing services plus the extra money that's in the bid?

Lord Burns: I need to give 5 or 10 minutes to people out in the room.

Audience Q: Andrew Whyte from Arts Council England. I think it's understandable but perhaps a little unfortunate that with the exception of Peter and Jocelyn and one or two others, the overwhelming focus of today's conversations has been on the industry, the broadcasting industry specifically and industry interests, and while it is terribly entertaining to watch Mark slug it out with Charles again, in fact watch Mark slug it out with the rest of the industry, I think there is a danger that a bigger dimension has been missed into those discussions, which is about the impact of the BBC on the wider cultural life and dimension of the nation. We at the Arts Council recognise the huge significance that the BBC has as a cultural patron. That has been a longstanding role of the BBC. It should be moving forward. It's something about something that the Secretary of State said a couple of years ago about the BBC as, I think the phrase was 'creative venture capital for the nation,' which goes beyond broadcasting and into a number of areas where we, as one stakeholder, and lots of other cultural organisations have an interest and would want to be contributing to the debate. We believe the BBC needs to be funded properly and appropriately to carry on that role as a major cultural patron. Yes, this is about the orchestras but also goes much beyond that, and many of the new proposals we've talked about today have a real implication for the cultural sector, the creative archive, the move to Manchester actually, the new local services, this sort of whole debate around the WOCC and the input into the independent production sector, all of that has a real cultural impact, as actually does the whole thing about quality content and the £1.6 billion extra investment in there, and it is important that we don't just get this bogged down just by the industry. This goes much broader

than just broadcasting, you need to remember that dimension. That also means, by the way, that the BBC does need to change, you need to react differently, and one of the things we're very pleased about is the partnership arrangement that we agreed with the BBC a year ago and is in operation now, and we look forward to exploring some of those new service ideas and exploring them as partners with the BBC, but one final point about partnership which is key in public value, I know. Partnership is about making the licence fee work harder, it's not about replacing the licence fee, it's not about using other funds, whether it's Arts Council funds or other organisations' funds to do core BBC services. It's about making those services work harder for viewers and listeners, but making the licence fee go further, and so we think partnership is a key dimension moving forward to develop this cultural role of the BBC, but it must be done on the basis of a properly funded, adequate licence fee to deliver the BBC's core services and to develop these new opportunities which will enable us to continue to work with the BBC to make the most of the digital age for the cultural life of Britain for viewers and listeners.

Lord Burns: OK. No, I think it's a fair point. I mean, the only thing I'd say is that we have been calling for evidence on this issue of the licence fee, and if people wish to put evidence forward on such issues, I'd be very happy to receive it, but so far we haven't had it.

Audience Q: Steven Barnett. Can I make a couple of points, one about the amount and also about the length of the settlement, which I think a couple of people raised. I've been trying to wade through this PKF Report. I'm slightly jaundiced having gone to see the Enron film last night, so my view of accountancy is slightly distorted. I'm not sure that actually it matters that much whether it's inflation plus 2.1, 2.2, 2.3%. The crucial thing to me is a point that Mark raised earlier on, which is what the White Paper is obliging or recommending that the BBC should do. There is a political and democratic imperative here which comes from the elected government of the country, which is, 'This is what we want our public broadcaster to do.' Now, what the White Paper doesn't actually grapple with is how this had an impact on the market-place or what it should then do, it leaves that to the Trust, but I think the crucial thing is that, Paddy, I've been around a long time for these charter renewal processes, this is the most transparent process and the most transparent licence proposal there has ever been, and I don't think we could actually ask more of the BBC. If we want to deny certain aspects of it, then that is up to the Trust, but I don't think we can deny that it's broken down adequately. One more point about the length of settlement. Again, just to endorse what Paddy said, while Ed's absolutely right about the speed of market change, what's actually changing is more or less the switch to digital. The fact is that linear fixed viewing and still predominantly communally in the living-room, is still the primary model for watching television, and actually radio listening, the model for radios, hasn't changed that much even with the advent of online. That is not going to change radically, Paddy's absolutely right, so let's not say just because there is major change going on, we should only fix the licence fee for five years. What we actually need is a period of stability to the BBC and that's why I think we ought to be looking for the longer term settlement. Apart from anything else, the prospect of going through this again in the next 2 or 3 years, much as I love seeing all the same people, you know, it's just too much.

Lord Burns: That's mutual.

Audience Q: So I'm just slightly confused about the nature really of the whole BBC bid. I mean, as I understood it, this was a bid the BBC governors completely supported, and in fact they engaged in it and they knocked the management down from a figure higher than inflation plus 2.3%. Then we're told, I think in response to Graham's point, that you know, they approve of all these things like £1.6 billion for quality content, but when it actually comes to spending it, they'll actually have to go back and ask for the Trust's approval, so they'll be essentially going

back and saying, 'You know that money that you've supported us in going to ask for? We are not going to spend ...'

Lord Burns: It's a different body.

Audience Q: Well, I've just got a funny feeling they might say yes.

Audience Q: Martin Lejeune from Sky. I think it's probably important just to subject the oft-repeated claim that this is the most transparent bid ever to just a degree more examination. I mean, what popped in to our in-boxes, or what we saw on the BBC website I can characterise, not unfairly I hope though satirically, as eight pages of very large numbers plus 74 pages of bollocks, so I think we would like a little bit more in the detail. The PKF Report is a step in the right direction certainly, though very difficult to read without seeing the BBC's own figures, and I appreciate their reasons of confidentiality for that, but I think if today has taught us anything, is that some of the numbers, when questioned, don't have that much of a substructure.

Lord Burns: OK.

Mark Thompson: We'd be very happy if you want to come and brief you, we'll brief you more detail on the numbers, that's not a problem.

Audience Q: I would be delighted to accept that.

Audience Q: I'm concerned that what I've seen here from some very, very competent people has in some cases added to the confusion by an attempted simplification. I believe we should have a longer charter for the BBC, but I've lived long enough on this earth to know that I don't want anybody to set a 10-year budget, but I do think a 10-year Charter makes sense, and that's where I think we may have gone wrong. We're looking at budget detail in a way people look at budgets. Having looked at the purposes of the BBC as opposed to the budget, I like them. I like them particularly if they imply the continuing technology leadership, the continuing content excellence, especially maintaining the independence and trustworthiness of the BBC, and the stability. I feel I know what the BBC is there for and what it's going to be doing. The question is, how much of it is it going to be doing, and that's where the money comes in, and it's a top-down view, I think, from Dame Hodgson, that I can subscribe to as a viewer. I can't pretend to analyse the detail of the budget with any credibility. I have no choice but to take a top-down view as a viewer, or as a customer.

Chairman's Closing Remarks

Lord Burns: Let me respond to that. I mean, we've had the White Paper. The government has shortly got to make its mind up about the licence fee that goes with it, both the length of time and the amount. The purpose of today's session is to try to make sure that when they do make that decision, that they have been in receipt of the views of the industry and the people who wish to challenge the things that have been put forward. That has been the purpose of today, that is what it is that we have been trying to do, and I hope that although we can't get to the bottom of all of the numbers, the government themselves, the department is in receipt, I think, of the BBC's bid and I'm told that it doesn't only reach to the table but could possibly ...

Mark Thompson: ... fill the room.

Lord Burns: ... could fill the room. And we have had the PKF Report which I think for those who had the stamina to deal with it, does contain a great deal of information, so we're not trying

to resolve today, let me stress. I mean, in the end this is an issue for the government to decide. What we have been trying to do is to gather input, get responses, get reactions and also to give the BBC an opportunity to respond, so let's not be in a sense too ambitious of what we can get out of it. I think what has come out of the debate is that there are a number of areas where the government, the department, is going to have to look at things in, you know, with I'm sure the deliberation and attention that it gives to these things. We've had the issue of super-inflation and the question of the offset of efficiency. We've had the issue of the 1.6 billion in the sense of the quality content, and how it is that we can give, I think, people greater assurance about what that is about. We have had the debate over the 1.2 billion. Again, I think there is a feeling that this also requires some more analysis and being quite clear of what it is for. The move out of London has also been raised by a number of people. Again, I'm sure the department will be looking at that. The light behind all of this, of course, is the question of the governance, this has come up time and time again, because what we have here I think is quite a major change, and that is what is intended in the White Paper, a major change in the way that these things work, and although we don't want to throw all of the, in a sense, all of the questions can't be answered by simply saying, 'This is now a matter for the Trust,' I think we have had, or I certainly have had during the course of the day, a much clearer view about how this process is going to work, and I think people have had the opportunity to also put forward their case as to those things that they would like to see looked at by the Trust. I mean, from a personal point of view, my only hope is that, you know, and the one fear I have of this personally is that we are creating a bureaucracy in terms of some of these things that will mean that some things which people will be very anxious to see happen, you know, are going to take months and months and months before they are resolved. I mean, I was astonished the other day when I was looking at some pod-cast to see this is part of a trial. My goodness, the world has moved on to such an extent that there are millions of these things out there, newspapers are doing them, you know, the world is at it and apparently we're still going through a trial, and you know, I think an important part of this is to make sure that the Trust is able to deal with some of these things I think with a kind of speed with which will be appropriate, otherwise there's going to be a great deal of frustration with it. But I think, you know, I need to bring this to a close shortly, I'd like to give Michael an opportunity if there is anything he wants to say, having heard this debate, before we close, and then again, if there are any urgent comments from people.

Michael Grade: I think the big plus that I take out of the whole day is a sense that people are beginning to understand the powers of the Trust, the responsibilities of the Trust and the separation of the Trust from management. It is clear that in managing the very difficult set of relationships and responsibilities, one in a sense representing the licence fee payers and the public interest, and then managing the BBC's co-existence with a very vibrant, very entrepreneurial, very exciting and dynamic private sector is going to require real objectivity. We're going to have to make judgments on evidence and we're going to have to make judgments on evidence provided by our own people, not by the Executive, by the operating board, by the Executive of the BBC. We have got a couple of years in the early days of the Trust to win the confidence and trust of the private sector which we have to do. I can understand why there is suspicion, I can understand why there is cynicism, and there was a lot of that today about the BBC, because of its past behaviour, and that's a historical fact, and something that we have to get through, but the whole purpose of the government's reforms are to put that to bed. It won't happen overnight but you do have to give us a chance in the early days to establish our independence as the Trust, balancing the public interest with the interests of the private sector, that's what we're there to do. The White Paper and the Charter and Licence Agreement gives us the power, all the powers we need, to carry out those responsibilities. We have our own governance unit which has already had a very practical effect and a positive effect on management's proposals all the way through. It will act with integrity, it will act with objectivity

and it will act with real clout and will have no hesitation giving money back to licence fee payers, it will have no hesitation saying no to management, it will have no hesitation to say yes sometimes in the interests of the licence fee payers. Anyway, I think I've heard one or two things today, Tim Gardam I think had a moment there where he suddenly began to realise what the responsibilities of the Trust were and what the separation thing is all about, so thank you for that, lots of issues, well hopefully the DCMS are hear listening to all this.

Lord Burns: They are.

Michael Grade: Lots of issues to take forward, so thank you very much to you, Terry, for your time.

Jocelyn Hay: Can I have just a moment?

Lord Burns: Five seconds.

Jocelyn Hay: Five seconds, yes indeed. What I wanted to say was two things. Licence fee payers are prepared to pay a reasonable adequate amount for the BBC to be there as the elephant, providing the services they trust and value, which are free from advertising. This is something that has been missed out today. People have a right to have services. Whilst they enjoy commercial services, they also value services both on radio and television that are free from advertising. That's not Jacuzzi funding, but they will not, there are two points that they won't put up with. One is top-slicing, licence fee payers do not want top-slicing for other things because it'll break that accountability, and they do not want a huge bill for a bureaucracy, and that comes back to transparent accounts as to exactly where the money's been spent. Thank you.

Lord Burns: Ed, were you saying you wanted five seconds?

Ed Richards: No, no, I was thinking, if that was five seconds, I'll have two and that will be enough. No, I think what Michael said a moment ago was extremely welcome and I think we are going to have a period of a lot of friction in this area, and we are going to have to give the Trust a chance to establish itself, and we are going to have to try and collectively work as effectively as we can together, and you know, the base line that I was talking about earlier, I didn't mean to imply work isn't going on, but until we get there, people like Graham, Lisa, Charles and others will be concerned, because they don't know what the base position is, and from, that position you'll be able to get clarity and a bit more predictability, so that is a key thing to me. One other, in my one second, that was one of my two seconds, I do think this business about the level of the licence fee and it's not very much money in the grand scheme of things, I think that is wrong. I think people are not indifferent. This is a compulsory tax on everybody in the country, so it is right and proper, and I'm sure Mark and other BBC people here would agree with this, it is right and proper that there is this level of accountability, and testing and examination of the budgets and the overall bid. They're not indifferent to it, it's very useful.

Lord Burns: OK, Charles.

Charles Allen: I mean, just picking up two quick points. Michael's point was a very good one in terms of they have a duty with regard to competition. I think the point that's still been missed today is that it's the level of investment that could have a serious impact on viewers. This is about viewers and if there's an imbalance in the investment, then the viewers will suffer. Sticking with the analogy of elephants, monkeys and nuts, this element here is asking for a mountain of nuts, and that mountain of nuts is four times the amount of nuts ITV has for one

year of programming, and that's the point, that if you actually change that ecology, then some of the kind things that Jocelyn says for ITV, Channel 4 and others will be affected. That's the point he needs to be focused on.

Lord Burns: Paddy, ten words, ten words.

Patrick Barwise: Mine really is short. Listen to the customer, not just the competitors.

Lord Burns: Thank you all very much. I'm very grateful. Everyone has behaved as normal impeccably and you've joined in the discussion in just the right way. I hope this is the last seminar in this Charter Review process.